



## Electronic Check Conversion, Substitute Checks, and Demand Drafts

Recent technological developments are making the act of writing a paper check very different than it used to be. As a result, money may come out of your checking account sooner than it would have with a traditional paper check. You must make sure you have enough money in your account when you write the check to avoid bouncing checks and incurring overdraft fees.

You should also know that money can be taken out of your checking account even if you haven't written out a paper check. By telling someone your checking account number and bank routing number, you are giving them access to your account. With this information, money can be deducted from your checking account without a paper check and without your signature.

Depending on which way the money comes out of your account, you have different rights. Read on to find out more about these alternate ways of paying using your checking account.

### ELECTRONIC CHECK CONVERSION

*You write a check at a store to pay for merchandise. The retailer swipes your check and hands it right back to you. What just happened?*

The retailer converted your check to an electronic debit of your checking account.

*You mail your check to pay a bill and your account is debited electronically upon receipt of the check. Your check is not returned. What happened to your check, and why can't you get it back?*

Your check may have been destroyed. The business is not required to return your check to your bank, so you will not receive your canceled check with your monthly bank statement.

### Your Consumer Rights and Responsibilities

**Notice of Electronic Check Conversion:** The business must tell you that your check will be converted to an electronic debit of your checking account.

This notice can occur in a variety of forms, such as a sign posted at a store or a notice in your monthly statement from the business.

- If you write a check after receiving this notice, then you have agreed to an electronic debit.
- If you do not want your check to be converted to an electronic debit, then you must pay by another method, such as cash, money order, or credit card.

**Notice of Any Fees In Event of Insufficient Funds:** The business must tell you about any fee it will charge if you do not have enough money in your account to cover the check amount (similar to a bounced check fee).

**Right to Receive Receipt at Store:** If you make a purchase at a store, the business must give you a receipt documenting the purchase, which shall include the name of the business and date, amount, and location of the purchase.

**Right to Receive Information in Your Bank Statement:** When you make a purchase or pay a bill where your check has been converted to an electronic debit of your checking account, you have a right to have the same information appear on your monthly bank statement (name of the business and date, amount, and location of the purchase).

**Dispute Resolution Procedure:** The business is allowed to debit your checking account for exactly the amount of the check. If the amount of the debit is incorrect, or if more than one debit occurs, then you have the right to ask your bank to investigate the error and, if the bank finds an error, to have your account corrected.

- You must promptly and carefully read all your monthly bank statements and bring errors to your bank's attention immediately.
- You have 60 days from the date your statement was sent to tell your bank about the error, but the sooner you tell your bank, the better.
  - ✧ Your loss is limited to \$50 if you report the error, loss, or theft to your bank within two days of learning of error, loss, or theft.
  - ✧ You risk loss of up to \$500 if you do not report the error, loss, or theft within 2 days of learning of error, loss, or theft.
  - ✧ You risk unlimited loss if you do not report the error, loss, or theft within 60 days of bank statement.
- The bank has up to 45 days to investigate the error and decide whether you are entitled to a credit to your account for the erroneous debit amount.

## SUBSTITUTE CHECKS

*You write a check to make a purchase or pay a bill, and the money comes out of your account much sooner than it used to. Why does that happen?*

Your check may be processed by use of a substitute check. Instead of processing the actual paper check in the traditional manner, businesses and banks now can use an electronic image of the front and back of your check – a virtual, substitute check – and send the image through the check payment process more quickly than if they had to transport the paper check to each stop in the process.

### Your Consumer Rights and Responsibilities

**Right to Traditional Check Protections:** By law, substitute checks have the same protections as traditional paper checks.

**Right to New Substitute Check Protections:** There is the possibility of an expedited credit in limited circumstances where the consumer is harmed in a way that would not have happened if the original check had been used. Substitute checks must meet minimum standards before they may be accepted instead of the actual paper check.

**Right to Authorize Debits:** Your bank may only debit your account for the amount that you wrote on your paper check.

**Responsibility to Review Monthly Statements:** You must promptly and carefully read all your monthly bank statements and bring errors to your bank's attention as soon as you detect them.

**Availability of Substitute Check:** Although it is not required that anyone retain or return your original paper check, the substitute check will be available to show the authorized amount in the event of a dispute.

**Dispute Resolution Procedure:** Unfortunately, there is no automatic right to a credit to your checking account. If the bank refuses to credit your checking account after you inform the bank of the erroneous debit, then your remedy, depending on your agreement with the bank, is to sue the bank or submit to binding arbitration to resolve your dispute. If you do sue or submit to arbitration, the bank may assert some defenses which may be difficult to overcome.

## DEMAND DRAFTS

*You provide your checking account number and bank routing number over the phone, and money is withdrawn from your account as if you had written a check. How does this work?*

In most states, including Illinois, you can pre-authorize a draft from your checking account. This occurs when you provide your checking account and bank routing numbers and authorize a certain amount of money to be withdrawn from your account. This process is sometimes also called a "telecheck."

## Your Consumer Rights and Responsibilities

**Right to Traditional Check Protections:** By law, demand drafts have the same protections as traditional paper checks.

**Right to Authorize Debits:** Your bank may only debit your account for the amount you authorized.

**Responsibility to Review Monthly Statements:** You must promptly and carefully read all your monthly bank statements and bring errors to your bank's attention as soon as you detect them.

**Dispute Resolution Procedure:** Unfortunately, there is no automatic right to a credit to your checking account. If the bank refuses to credit your checking account after you inform the bank of the erroneous debit, then your remedy, depending on your agreement with the bank, is to sue the bank or submit to binding arbitration to resolve your dispute. If you do sue or submit to arbitration, the bank may assert some defenses which may be difficult to overcome.

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